

AGENDA PAPER

Item Number: 3

Date of Meeting: 7 February 2022

Subject: Proposed reissue of APES 320 as *Quality Management for Firms that provide Non-Assurance Services*

<input checked="" type="checkbox"/>	Action required	<input checked="" type="checkbox"/>	For discussion	<input checked="" type="checkbox"/>	For noting	<input type="checkbox"/>	For information
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Purpose

To:

- provide the Board with Technical Staff's assessment of submissions received on *Proposed Standard: APES 320 Quality Management for Firms that provide Non-Assurance Services Exposure Draft 05/21 (ED 05/21)*;
- obtain the Board's approval, subject to the Board's review comments and editorials, to:
 - reissue APES 320;
 - issue the Basis for Conclusions for the reissue of APES 320; and
 - publish the Mapping Table *Reissued APES 320 compared to extant APES 320*; and
- obtain the Board's approval of Technical Staff's proposed way forward.

Background

The IAASB issued ISQM 1 *Quality Control for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance and Related Services Engagements (ISQM 1)*, ISQM 2 *Engagement Quality Reviews (ISQM 2)* and ISA 220 *Quality Management for an Audit of Financial Statements (ISA 220)* in December 2020 (operative 15 December 2022).

ISQM 1 and 2 will replace ISQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements (ISQC 1)*. Extant APES 320 incorporates ISQC 1 with minor wording changes and additional AUST paragraphs. ISQM 1 and 2 fundamentally change how Firms manage quality for audits, reviews, other assurance, and related services engagements.

The Board discussed two options to manage the impact of ISQM 1 and 2 on extant APES 320 and APES 325 *Risk Management for Firms (APES 325)* at the [March 2021 Board meeting](#) and [approved Option 2](#) for APES 320 to become a specific quality management standard for non-assurance services consistent with Firm-level components of ISQM 1.

The Board considered a preliminary draft exposure draft for APES 320 at the [June 2021 Board Meeting](#). The [Board requested](#) Technical Staff to develop an action plan considering the perspectives of large, medium and small Firms, simplifying the standard and the interaction between APES 320 and APES 325. An out-of-session Board meeting on 16 August 2021 considered this action plan.

The Board considered four options for APES 320 at the [September 2021 Board meeting](#) and [determined](#) to adopt option one for APES 320 to focus on non-assurance services, with improved navigation for Firms of all sizes and high-level alignment to ASQM 1. The Board approved the issue of ED 05/21, which was issued on 15 September 2021 and open for public comment until 26 November 2021.

Key Considerations

1. Submissions Received on ED 05/21

APESB received nine submissions on ED 05/21 from:

- Chartered Accountants Australia and New Zealand (CA ANZ);
- CPA Australia;
- Craig Allen;
- Deloitte;
- The Institute of Public Accountants (IPA);
- KPMG;
- Philip Priest;
- Pitcher Partners; and
- Pricewaterhouse Coopers (PwC).

A summary of responses to the four Requests for Specific Comments in ED 05/21 is set out in Sections 2 to 5. Section 6 summarises the most substantive issue raised by respondents. The proposed reissue of APES 320 incorporating Technical Staff proposed changes is attached as Agenda Items 3(a) (marked-up) and 3(b) (clean). All respondents and Technical Staff comments are set out in General and Specific Comments Tables (Agenda Items 3(c), 3(d) and 3(e)).

2. Request for Specific Comment 1 – APES 320 applying to non-assurance services

All but one respondent support APESB's approach to reissuing APES 320 as a specific quality management standard for non-assurance services. The remaining respondent believes APES 320 should continue to apply to all Firms, including assurance and non-assurance (SC3). Technical Staff believe if APES 320 continued to apply to assurance practices, it would result in significant disruption and potentially two separate systems for assurance practices.

IPA believe the standard's proposed title could be simplified as less sophisticated or new practitioners may overlook 'non-assurance services' thinking it does not apply to them (SC5). Although not strongly opposed, CA ANZ believe retaining the extant title *Quality Control for Firms* may create a clearer distinction from ASQM 1 (SC48). Technical Staff are of the view the proposed title delineates APES 320 for non-assurance services from ASQM 1 and 2 applying to assurance practices and do not recommend changing the title.

Technical Staff recommend including a table in Appendix 1 illustrating engagements provided by assurance practices and a non-exhaustive list of non-assurance services. This table, together with proposed paragraph 1.10 and definitions of Assurance Engagement and Assurance Practice, provide sufficient clarity on the services covered by APES 320.

3. Request for Specific Comment 2 – should APES 320 include root cause analysis

Most respondents agree with APESB's approach of not mandating root cause analysis (RCA) in APES 320 due to it being onerous for most practices to apply, particularly small to medium practices (SMPs), and potentially the implementation costs outweighing benefits. Some respondents note RCA is only one method to solve problems and including it in APES 320 may be detrimental to more appropriate strategies. Deloitte is of the view that APESB should undertake a post-implementation review (PIR) as to whether RCA should be incorporated into APES 320.

CPA Australia support, including guidance on RCA in APES 320 due to its benefit of identifying underlying causes of deficiencies and believe it will assist hybrid Firms undertaking RCA under ASQM 1. Technical Staff agree that guidance on RCA and not a requirement would enable Firms to use professional judgement and apply it if appropriate to their circumstances.

Technical Staff recommend including a potential remedial action to proposed guidance paragraph 4.75 to take appropriate action to address the cause of the deficiencies, identified through, for example, but not limited to RCA with a footnote referring to ASQM 1 material on RCA.

4. Request for Specific Comment 3 – would implementation guidance be beneficial

Responses were mixed on the benefits of implementation material. Four respondents supported such guidance for SMPs or Firms providing non-assurance services only. Other respondents noted the development of implementation guidance as part of the role of professional bodies and that APESB's mapping table and/or staff Q&A/FAQ session would be sufficient as the proposed APES 320 does not create significant changes from the extant Standard. Technical Staff have updated the Mapping Table Reissued APES 320 compared to extant APES 320 (Agenda Item 3(g)) for additional changes resulting from ED 05/21.

Technical Staff recommend that a staff Q&A/FAQ session and/or publication focusing on SMPs is developed post-issuance of APES 320.

5. Request for Specific Comment 4 – should APES 320 and APES 325 remain separate

All respondents support APES 320 and APES 325 continuing as separate standards to avoid confusion and disruption and noting the different focus of the two Standards. However, some respondents recommend that APESB further explore the interaction and/or amalgamation of the standards at a future date.

Technical staff recommend a PIR of APES 320 be undertaken two years from the standard's effective date (1 January 2025), including further exploration of the interaction between APES 320 and APES 325.

6. Outputs from non-assurance services

CA ANZ, Deloitte and KPMG believe the varied nature of non-assurance services means there will not always be conclusions reached or reports issued, which is inferred throughout APES 320. As a result, KPMG provided suggested wording for specific paragraphs and a proposed definition for 'Engagement deliverables' to replace reports (SC44).

Technical Staff agree that this should be rectified in the standard. APES 305 *Terms of Engagement* has referred to 'Engagement outputs' since 2007 (although not a defined term) as 'reports or other anticipated outputs,' and the same wording has been in APES GN 30 *Outsourced Services* since 2013.

Technical Staff believe the wording from APES 305 and APES GN 30, which have been subject to various exposure periods, should be used except for 'anticipated', combined with KPMG's suggested wording and other non-assurance services listed by Deloitte (GC23). Technical Staff also believe the definition of Engagement Document from APES 305 and 'regulatory return' should be used (rather than Engagement and tax return as suggested by KPMG).

Technical Staff recommend the following proposed definition for Engagement Output:

Engagement Output means the report or other output of an **Engagement** as specified in the **Engagement Document**. The Engagement Output may include, but is not limited to, a report, presentation, regulatory return or other completed form, advice, systems implementation, provision of managed services or project management outputs.

Technical Staff recommend the following paragraphs be amended to address this issue:

APES 320 Paragraph/Definition	General or Specific Comments
1.1	SC38 & SC39
Engagement Document	SC44
Engagement Output	GC23, GC24, SC38, SC43 & SC44
Engagement Partner	SC43, SC45 & SC46
System of Quality Management	SC43 & SC50
3.1	SC51 & SC53
3.3	SC54
4.2	SC60
4.39	SC72 & SC73
4.42	SC 74 & SC75
4.48	SC79 & SC80
4.49	SC81 & SC82
4.51	SC83
4.66	SC87 & SC88
4.70	SC89 & SC90
4.75	SC92 & SC93

Respondents' other substantive issues are summarised in Agenda Item 3(f).

7. APESB Webinar on APES 320

Technical Staff ran an [APES 320 Zoom webinar](#) on 8 November 2021. Over 90 people registered and 78 attended, 39 (50%) were sole practitioners or from 2-5 partner practices. Attendees answered poll questions modelled on the Requests for Specific Comments in ED 05/21 (summarised in Agenda Item 3(h)). The majority agreed APES 320 should only apply to non-assurance services, APES 320 and APES 325 should remain separate and additional

implementation material would be beneficial. In addition, almost two-thirds believed APES 320 should include root cause analysis.

8. Additional Stakeholder Engagement

Technical Staff met with the following respondents to discuss Technical Staff proposals to address issues raised:

IPA (5 January 2022) agreed with Technical Staff's approach and the inclusion of the table in Appendix 1 setting out assurance and non-assurance engagements.

KPMG (25 January 2022) agreed with Technical Staff's approach to their comments and the proposed definition of Engagement Output and inclusion of Engagement Document.

CA ANZ (25 January 2022) agreed with Technical Staff's approach to their comments and the proposed definition of Engagement Output and inclusion of Engagement Document. CA ANZ reiterated their views regarding the use of Independence versus role and mindset (refer to Agenda Item 3(f) item 3).

Technical Staff recommend adding to the APESB Issues Register under APES 110 to consider which standards may need to be reviewed in respect of role and mindset provisions.

CPA Australia (27 January 2022) agreed with Technical Staff's approach and the proposed guidance on root cause analysis in paragraph 4.75 as a reasonable compromise based on the views APESB received via submissions.

Deloitte (28 January 2022) and the main issues discussed were:

- Deloitte believe the focus should be on 'assurance services' not Assurance Practice, as assurance services can be provided outside an 'assurance practice'. For example, certain corporate finance services include an assurance service.

To address this concern, Technical Staff have included a table describing the different services provided by a non-assurance practice and an assurance practice (refer to SC41).

We have also provided Appendix 1 to the AUASB Technical Staff for their review and feedback (refer below). Technical Staff also note that the definition of Assurance Practice includes a section of the firm as long as it performs an Assurance Engagement.

- Deloitte are concerned about using the words 'issued or provided' after the term Engagement Output (included post-ED) as it could exclude certain outputs from non-assurance services. For example, a system's implementation may not be 'provided', and in their view, the words themselves are unnecessary.

The words 'issued or provided' were included in the definition based on KPMG's proposals. A professional service firm will ultimately issue a report or provide a service in some form. Accordingly, Technical Staff support KPMG's proposals to encompass the broad range of non-assurance services firms provide.

- Deloitte believe application or implementation material is required to enable firms to understand the meaning of 'reasonable confidence'.

Refer to Technical Staff's views on reasonable confidence in GC22 and issue 2 in Agenda Item 3(f). We believe this should be addressed in implementation material and/or professional bodies' guidance as leaving it undefined provides greater flexibility and scalability for Small and Medium Practices.

- Deloitte believe there is an opportunity to reframe the standard with greater emphasis on personnel compliance with professional standards (section 5 of Deloitte’s submission and SC55, SC59, SC61, SC63, SC66, SC67, SC69, SC70, SC76, SC84 and SC85).

These matters are also dealt with in issue 4 in Agenda Item 3(f), which deals with other substantive issues raised by respondents. Technical Staff believe making certain policies and procedures more specific reduces Firms' flexibility in how they meet the requirements of the elements of the system and their ability to use existing policies and procedures established for the extant APES 320. We note that it may lead to further disruption for Firms as they address the requirements for the quality management standards for assurance and non-assurance services in 2022.

- Deloitte believe ‘complaints and allegations’ should be aligned to ISQM 1/ASQM 1 to enable hybrid firms to have a single complaint management system (refer SC91).

The complaints and allegations arising from a regulated audit practice of a large firm subject to ASQM1 are likely to be fundamentally different for a sole practitioner providing non-assurance services to small business clients. Accordingly, Technical Staff do not believe that the requirements in APES 320 should be the same as ASQM1. However, this does not prevent a large hybrid firm from reviewing the requirements of both standards and establishing a single complaint management system.

Technical Staff did not convene follow up meetings with the remaining respondents due to the following:

- Craig Allen – Technical Staff met with Craig on 25 October 2021 regarding this ED and also clarified his response to Request for Specific Comment 1 via email on 6 January 2022.
- PwC – Technical Staff met with PwC on 9 November 2021 regarding a general update on APESB matters and discussed this ED and its key issues before PwC made their submission. Further, PwC’s submission is supportive of the approach taken by APESB and no substantive issues were raised.
- Philip Priest and Pitcher Partners, as their submissions support the approach taken by APESB and no substantive issues were raised.

A few respondents have raised matters relating to the scope of APES 320 and ASQM1. In order to provide additional guidance, Appendix 1 has been enhanced with a table describing various services that fall within the mandate of APES 320 and ASQM1. The proposed Appendix 1 has been reviewed by the AUASB Technical Staff. They support the position in Appendix 1, including the ability of a non-assurance firm to perform an Agreed-Upon Procedures engagement and use APES 320 as the Quality Management Standard.

9. Basis for Conclusions

Technical Staff have developed a draft Basis for Conclusions reissue of APES 320, which is attached at Agenda Item 3(i). Subject to the Board’s views, direction and review comments, Technical Staff propose to issue this together with the reissued APES 320.

10. Impact on SMPs

Technical Staff have considered the impact of the proposed changes to APES 320 on SMPs and believe the approach taken by the APESB minimises impact and disruption. The approach enables SMPs to maintain existing policies and procedures with minimal changes and provides high-level alignment to ASQM 1. Further, changes can occur over the same period to reduce resource implications for SMP hybrid Firms.

Technical Staff recommend that a staff Q&A/FAQ session and/or publication focusing on SMPs is developed post-issuance of APES 320.

Way Forward

Subject to the Board's views and direction, Technical Staff propose the following way forward:

1. reissue APES 320 by late February 2022 with an effective date of 1 January 2023, allowing ten months for implementation with early adoption permitted;
2. issue the Basis for Conclusions and Mapping Table concurrently with the standard;
3. develop a Technical Staff Q&A/FAQ session and/or publication focusing on SMPs post the reissue of APES 320;
4. add to the APESB Issues Register under APES 110 to consider which standards may need to be reviewed in respect of role and mindset provisions; and
5. undertake a PIR of APES 320 2 years from its effective date (1 January 2025), including reviewing the interaction between APES 320 and APES 325.

Staff Recommendation

The Board:

- note Technical Staff's assessment of submissions received on ED 05/21;
- approve, subject to the Board's review comments and editorials, to:
 - reissue APES 320;
 - issue the Basis for Conclusions reissue of APES 320; and
 - issue the Mapping Table Reissued APES 320 compared to extant APES 320; and
- approve Technical Staff's proposed way forward.

Materials Presented

Agenda Item 3(a)	Proposed Reissue of APES 320 (Marked-up)
Agenda Item 3(b)	Proposed Reissue of APES 320 (Clean)
Agenda Item 3(c)	General Comments Table APES 320 ED 05/21
Agenda Item 3(d)	Specific Comments Table APES 320 ED 05/21
Agenda Item 3(e)	Specific Comments Table APES 320 ED 05/21 Attachment 1
Agenda Item 3(f)	Summary of Other Substantive Issues Raised by Respondents
Agenda Item 3(g)	Mapping Table Reissued APES 320 compared to extant APES 320

Agenda Item 3(h) Summary of poll results from APES 320 Webinar
Agenda Item 3(i) Draft Basis for Conclusions reissue of APES 320

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